

Message Text

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PAGE 01 ROME 03136 01 OF 02 061740Z

46

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 DODE-00 FS-01 ABF-01 OMB-01 EB-11

L-03 USIA-15 OPR-02 A-01 FSI-01 PER-05 DRC-01 RSC-01

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P R 061600Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 3583

INFO AMEMBASSY PARIS

USCINCEUR VAIHINGEN/ECCM

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 3136

E.O. 11652: N/A

TAGS: EFIN, MILI, IT

SUBJECT: NEW PROCEDURE FOR PURCHASING LIRE FOR US GOVERNMENT

FOR DEFENSE, TREASURY (PASS FISCAL SERVICE FOR COX),
PARIS RFC FOR LERCHBAUM

REF: (A) ROME 1651 (B) STATE 037879

1. SUMMARY. FOLLOWING IS DRAFT TEXT OF LETTER FROM
AMBASSADOR TO ITALIAN MINISTER OF TREASURY WHICH, ALONG
WITH REPLY FROM MINISTER, WOULD CONSTITUTE REVISED
VERSION OF "TASCA AGREEMENT" CONCERNING PROCEDURES FOR
PURCHASING LIRE FOR USG CIVILIAN AND MILITARY EXPENDITURES
AND ACCOMMODATION EXCHANGE IN ITALY. DRAFT TEXT HAS
BEEN APPROVED IN PRINCIPLE BY BANK OF ITALY AND COPY
LEFT WITH MINISTRY OF TREASURY. DUE TO RESIGNATION OF
MINISTER LAST WEEK, SOME DELAY IN SIGNATURE OF LETTER
BY MINISTER MAY BE UNAVOIDABLE. REQUEST APPROVAL BY
WASHINGTON AGENCIES OF TEXT OF AGREEMENT. END SUMMARY.

2. FOLLOWING RECEIPT OF AUTHORIZATION CONTAINED REF B,
TREASATT LEFT COPIES OF DRAFT LETTER FROM AMBASSADOR
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PAGE 02 ROME 03136 01 OF 02 061740Z

TO ITALIAN TREASURY MINISTER (AND ATTACHED ANNEX) WITH

BANK OF ITALY AND WITH TREASURY MINISTRY. LETTER AND ANNEX, PLUS GOI REPLY, WOULD CONSTITUTE AGREEMENT BETWEEN GOI AND USG ON REVISED PROCEDURE FOR PURCHASING LIRE FOR USG EXPENDITURES AND ACCOMMODATION EXCHANGE IN ITALY. HEAD OF FOREIGN DEPARTMENT OF BANK OF ITALY (DRAGAGNA) WITH AGREEMENT OF BOI CENTRAL DIRECTOR ERCOLANI, INFORMED TREASATT MARCH 5 THAT BANK HAS NO DIFFICULTY WITH TEXT. BANK HAD EARLIER COORDINATED BASIC GOI POSITION WITH MIINSTRIES OF FOREIGN AFFAIRS, TREASURY AND FOREIGN TRADE AND WITH ITALIAN EXCHANGE OFFICE AND HAD INFORMALLY ADVISED EMBASSY ON JANUARY 23 OF AGREEMENT, IN PRINCIPLE, TO PROPOSAL FOR PURCHASING LIRE WITH US BANKNOTES.

3. INTENT OF EXCHANGE OF LETTERS IS TO REVISE LONG-STANDING SPECIAL GOI/USG ARRANGEMENTS FOR PURCHASING LIRE FROM BANK OF ITALY (TASCA AGREEMENT) FOLLOWING CREATION OF MULTIPLE FLOATING EXCHANGE RATE SYSTEM IN JANUARY AND FEBRUARY 1973. REVISED AGREEMENT WOULD ALLOW USE OF FOREIGN BANKNOTE VERSION OF FINANCIAL LIRA RATE, WHICH IS MOST FAVORABLE OF LEGAL RATES NOW AVAILABLE IN ITALY. ATTEMPT HAS BEEN MADE TO MAINTAIN CONTINUITY OF SPECIAL ARRANGEMENTS WHICH BEGAN IN 1947, SINCE THEY IMPLY CERTAIN RESPONSIBILITY ON PART OF GOI TO PROVIDE USG WITH FAVORABLE EXCHANGE RATE, OWING MAINLY TO PRESENCE OF US TROOPS IN ITALY FOR COMMON DEFENSE. PROCEDURE FOR SALES OF DOLLARS TO CENTRAL BANK HELPS TO INSURE THAT USG EXPENDITURES ARE NOT DIVERTED INTO ILLEGAL CHANNELS. IT ALSO PROVIDES SOME STATISTICAL EVIDENCE OF BALANCE OF PAYMENTS COST TO USG OF STATIONING TROOPS IN ITALY IN CONTEXT OF BURDEN-SHARING EXERCISES.

4. WASHINGTON AGENCIES SHOULD NOTE TREATMENT OF CERTAIN ASPECTS OF PROBLEM CONTAINED IN DRAFT LETTER:

(1) PROVISION FOR TEN-DAY AVERAGE EXCHANGE RATE WOULD BE SUBJECT TO RECALCULATION, IF RATE MOVES MORE THAN 5 PER CENT IN ONE DAY; (2) PERMISSION FOR RECYCLING OF 10 PER CENT OF DOLLAR BANKNOTES SOLD FOR LIRE UP TO MAXIMUM OF \$2 MILLION IN TWO-MONTH PERIOD WOULD BE REVIEWED AFTER LIMITED OFFICIAL USE

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PAGE 03 ROME 03136 01 OF 02 061740Z

SYSTEM HAS BEEN IN EFFECT FOR SIX MONTHS; (3) USG WOULD HAVE OPTION TO PURCHASE LIRE AT COMMERCIAL LIRA RATE, IF THAT RATE SHOULD EXCEED BANKNOTE RATE; (4) USG AGENCIES WOULD PURCHASE ALL OF LIRE FROM BANK OF ITALY AND USG AMERICAN EMPLOYEES WOULD ALSO BE ADVISED TO PURCHASE LIRE THROUGH NEW SYSTEM; (5) SAFEGUARD CLAUSE IS CONTAINED IN AGREEMENT TO PROVIDE FOR CONSULTATION AND REVISION OF AGREEMENT

UNDER CERTAIN CIRCUMSTANCES.

5. FOLLOWING IS ENGLISH TEXT OF LETTER FROM AMBASSADOR VOLPE TO MINISTER OF TREASURY AND ATTACHED ANNEX. (COPY OF ITALIAN TEXT HAS ALSO BEEN PREPARED.) EMBASSY IS POUCHING TEXT OF PRO MEMORIA OF NOVEMBER 15, 1973, WHICH IS REFERRED TO IN DRAFT LETTER. PRO MEMORIA CONTAINS HISTORICAL/LEGAL DESCRIPTION OF AND JUSTIFICATION FOR SPECIAL CURRENCY ARRANGEMENTS BETWEEN USG AND BOI. COPIES OF PRO MEMORIA WERE LEFT WITH MINISTRIES OF TREASURY, FOREIGN AFFAIRS AND DEFENSE AND WITH BANK OF ITALY LAST NOVEMBER WHEN GOI AGENCIES WERE COORDINATING THEIR POSITION ON LIRA PURCHASE PROPOSAL.

6. QUOTE. DEAR MR. MINISTER: AS A RESULT OF VARIOUS CHANGES WHICH HAVE TAKEN PLACE IN THE FOREIGN EXCHANGE REGIME IN ITALY, ESPECIALLY THE CREATION OF A MULTIPLE EXCHANGE RATE SYSTEM WITH FLOATING RATES, PROBLEMS HAVE ARISEN IN APPLICATION OF THE "TASCA" AGREEMENT. THIS AGREEMENT CONCERNS THE DETERMINATION OF THE DOLLAR-LIRA RATE OF EXCHANGE TO BE APPLIED TO UNITED STATES GOVERNMENT EXPENDITURES IN ITALY, INCLUDING THOSE OF CIVILIAN AND MILITARY PERSONNEL, AND THE PROCEDURES TO BE USED FOR PURCHASING LIRE FOR THESE PURPOSES. YOU MAY RECALL THAT THE TASCA AGREEMENT DATES FROM JANUARY 25, 1947 AND TOOK THE FORM OF AN EXCHANGE OF LETTERS BETWEEN THE THEN MINISTER OF TREASURY BERTONE AND MR. TASCA, THEN U.S. TREASURY REPRESENTATIVE AT THE AMERICAN EMBASSY IN ROME.

7. SINCE EARLY 1973, THE U.S. TREASURY ATTACHE AT THE AMERICAN EMBASSY HAS BEEN DISCUSSING INFORMALLY WITH BANK OF ITALY AND ITALIAN GOVERNMENT OF OFFICIALS THE BEST LIMITED OFFICIAL US
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PAGE 01 ROME 03136 02 OF 02 061747Z

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P R 061600Z MAR 74
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 3584
INFO AMEMBASSY PARIS

USCINCEUR VAIHINGEN/ECCM

LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 3136

8. THE ANNEX TO THIS LETTER IS DESIGNED TO COUTLINE MODIFICATIONS IN THE TASCA AGREEMENT WHICH WOULD PERMIT THE U.S. GOVERNMENT TO HAVE A FAVORABLE RATE OF EXCHANGE, CONSISTENT WITH THE EXISTING FOREIGN EXCHANGE REGIME IN ITALY. IF YOU AR IN AGREEMENT WITH THE ATTACHED PROPOSAL, YOUR LETTER OF ACKNOWLEDGEMENT, TOGETHER WITH THIS LETTER AND ANNEX, WILL CONSTITUTE AN AGREEMENT SUPERSEDING THE PROVISIONS OF THE AGREEMENT OF JANUARY 25, 1947 (AS PREVIOUSLY AMENDED). SINCERELY YOURS, JOHN A.VOLPE. END QUOTE.

9. QUOTE. ANNEX-PROCEDURE FOR FIXING EXCHANGE RATE AND FOR PURCHASING LIRE BY THE U.S. GOVERNMENT IN ITALY. PARA 1. THE NORMAL WAY IN WHICH THE UNITED STATES GOVERNMENT WILL OBTAIN LIRE FOR U.S. GOVERNMENT EXPENDITURES AND FOR RESALE TO EMPLOYEES OF THE U.S. GOVERNMENT WILL BE THROUGH THE SALE OF U.S. BANKNOTES TO THE BANK OF ITALY. THE APPLICABLE EXCHANGE RATE WILL BE A TEN-DAY AVERAGE OF THE CLOSING RATE FOR LARGE DENOMINATION FOREIGN BANKNOTES (DOLLARS) ON THE ROME AND MILAN STOCK EXCHANGES. THIS AVERAGE RATE WILL BE REDUCED BY 0.15 PER CENT TO COVER SHIPPING AND INSURANCE COSTS INVOLVED IN TRANSMITTING THIS U.S. CURRENCY BACK TO THE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 02 ROME 03136 02 OF 02 061747Z

UNITED STATES BY THE BANK OF ITALY. HOWEVER, THE 0.15 PER CENT SHOULD NOT APPLY TO DOLLAR/LIRA CONVERSIONS AS REGARDS THE DOLLARS REPUCHASED BY THE U.S. GOVERNMENT FROM THE ANK IN ACCORDANCE WITH PARAGRAPH 5 BELOW. PRIOR TO ANY CHANGE IN THE METHOD OF CALCULATING THE RATE OF EXCHANGE AS PROVIDED IN THIS PARAGRAPH, AN UNDERSTANDING SHALL BE REACHED BETWEEN THE TWO GOVERNMENTS WITH RESPCT TO THE PROCEDURE TO BE USED IN THE IMPLEMENTATION OF THESE PROVISIONS.

10. PARA 2. PURCHASES OF LIRE FROM THE BANK OF ITALY WITH U.S.CURRENCY WILL NORMALLY BE MADE BY A CENTRAL FUNDING OFFICER OF THE UNITED STATES GOVERNMENT WHO WILL TAKE ORDERS FOR LIRE FROM THE VARIOUS CIVILIAN AND MILITARY COMPANENTS OF THE UNITED STATES GOVERNMENT IN ITALY. LIRE PURCHASES IN THIS WAY WILL THEN BE TRANSFERRED BY THE BANK, AS INSTRUCTED BY THE CENTRAL FUNDING OFFICER, TO THE ACCOUNTS OF THESE UNITED STATES GOVERNMENT AGENCIES HELD WITH THE ITALIAN BANKS WHICH PROVIDE THEM WITH BANKING SERVICES.

11. PARA 3. THE TEN-DAY PERIODS DURING WHICH THE UNITED STATES GOVERNMENT WOULD BE ABLE TO PURCHASE LIRE AT THE FIXED TEN-DAY AVERAGE REFERRED TO ABOVE WOULD BE THE FOLLOWING:

- (A) FROM THE 1ST THROUGH THE 10TH OF EACH MONTH, AT THE AVERAGE RATE FOR THE PERIOD FROM THE 16TH THROUGH THE 25TH OF THE PREVIOUS MONTH.
- (B) FROM THE 11TH THROUGH THE 20TH OF EACH MONTH, AT THE AVERAGE RATE FOR THE PERIOD FROM THE 26TH OF THE PREVIOUS MONTH THROUGH THE 5TH OF THE CURRENT MONTH, AND
- (C) FROM THE 21ST THROUGH THE LAST DAY OF EACH MONTH, AT THE AVERAGE RATE FOR THE PERIOD FROM THE 6TH THROUGH THE 15TH OF THE CURRENT MONTH.

THE RATE OF EXCHANGE ESTABLISHED FOR THESE PERIODS SHOULD BE NOTIFIED TO THE AMERICAN EMBASSY IN ROME FOR DISSEMINATION TO UNITED STATES GOVERNMENT AGENCIES AS LIMITED OFFICIAL USE
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PAGE 03 ROME 03136 02 OF 02 061747Z

SOON AS POSSIBLE AFTER THE END OF THE AVERAGING PERIOD AND IN ADVANCE OF THE BEGINNING OF THE NEXT TEN-DAY PERIOD OF APPLICABILITY. IN THE EVENT THAT THE DAILY AVERAGE FOREIGN BANKNOTE RATE FOR LARGE DENOMINATION BILLS IN THE MARKET SHOULD RISE OR FALL ON ANY GIVEN DAY BY 5 PERCENT OR MORE FROM THE PREVIOUS DAY'S RATE, THE APPLICABLE RATE FOR UNITED STATES GOVERNMENT PURCHASES FOR THE REMAINING PART OF THAT TEN-DAY PERIOD AND FOR THE SUCCEEDING TEN-DAY PERIOD SHALL BE A DAILY RATE BASED UPON THE PREVIOUS DAY'S AVERAGE BANKNOTE RATE, UNLESS AGREEMENT IS REACHED TO THE CONTRARY.

12. PARA 4. THE UNITED STATES GOVERNMENT WOULD HAVE THE RIGHT TO REPURCHASE U.S. CURRENCY SOLD TO THE BANK OF ITALY WITH PAYMENT IN LIRE AT THE APPLICABLE EXCHANGE RATE CALCULATED IN ACCORDANCE WITH PARAGRAPH 1 ABOVE, FOR THE DAY PRECEDING THAT OF THE DAY OF PURCHASE. NEVERTHELESS, AND ON AN EXCEPTIONAL BASIS, THE UNITED STATES GOVERNMENT WOULD BE PERMITTED TO REPURCHASE U.S. CURRENCY WITH PAYMENT IN THE FORM OF A DOLLAR CHECK IN AN EQUIVALENT AMOUNT DRAWN ON THE UNITED STATES TREASURY WITHIN A LIMIT OF 10 PER CENT OF THE NET AMOUNT OF U.S. CURRENCY ORIGINALLY SOLD TO THE BANK, BUT IN NO CASE IN AN AMOUNT GREATER THAN \$2 MILLION IN ANY TWO-MONTH PERIOD. HOWEVER, IT IS AGREED THAT, AFTER THIS NEW PROCEDURE HAS BEEN IN EFFECT FOR AN INITIAL SIX-MONTH PERIOD, THE QUESTION OF A POSSIBLE INCREASE IN THIS 10 PER CENT

LIMIT SHALL BE RE-EXAMINED BY THE TWO GOVERNMENTS AND,

SUBSEQUENTLY, THE MATTER MAY BE KEPT UNDER REVIEW.

13. PARA 5. AS AN ALTERNATIVE TO THE ABOVE PROCEDURES FOR PURCHASING LIRE WITH U.S. CURRENCY, THE UNITED STATES GOVERNMENT, EITHER THROUGH THE CENTRAL FUNDING OFFICER OR THROUGH LOCAL DISBURSING OFFICERS, MAY, AT ITS OPTION, BE FREE TO PURCHASE LIRE FROM ANY BANK OF ITALY BRANCH AT THE PREVIOUS DAY'S AVERAGE COMMERCIAL RATE OF EXCHANGE AT CLOSING ON THE ROME AND MILAN STOCK EXCHANGES WITH PAYMENT BY A DOLLAR CHECK DRAWN ON THE UNITED STATES TREASURY.

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PAGE 04 ROME 03136 02 OF 02 061747Z

14. PARA 6. THE BANK OF ITALY WILL PROVIDE TO THE AMERICAN EMBASSY IN ROME A MONTHLY REPORT OF THE VOLUME OF DOLLAR/LIRA CONVERSIONS CARRIED OUT BY THE BANK, EITHER AT THE FOREIGN BANKNOTE RATE OR AT THE COMMERCIAL LIRA RATE OF EXCHANGE. ALSO, THE BANK WILL SUPPLY A STATEMENT TO THE CENTRAL FUNDING OFFICER OR TO THE LOCAL DISBURSING OFFICER AT THE TIME OF DOLLAR/LIRA CONVERSIONS SHOWING THE AMOUNT OF LIRE DELIVERED, THE NUMBER OF DOLLARS GIVEN IN EXCHANGE AND THE RATE OF EXCHANGE AT WHICH THE LIRE IN QUESTION HAVE BEEN SUPPLIED.

15. PARA 7. THE U.S. GOVERNMENT WILL PURCHASE ALL OF ITS LIRE FOR EXPENDITURES IN ITALY FROM THE BANK OF ITALY IN ACCORDANCE WITH THE ABOVE PROCEDURES AND AMERICAN EMPLOYEES OF THE UNITED STATES GOVERNMENT IN ITALY WILL BE ADVISED TO OBTAIN LIRE FOR THEIR PERSONAL NEEDS THROUGH THIS SAME SYSTEM.

16. PARA 8. IN THE EVENT THAT THERE SHOULD OCCUR A SUBSTANTIAL CHANGE IN ITALY'S FOREIGN EXCHANGE REGIME OR IN PREVAILING EXCHANGE RATES, EITHER PARTY MAY REQUEST CONSULTATIONS IN ORDER TO DETERMINE WHETHER, AND, IF SO, HOW, THE PRESENT AGREEMENT SHOULD BE MODIFIED. IN SUCH CASE, THE UNITED STATES GOVERNMENT WOULD DESIRE THE APPLICATION OF THE MOST FAVORABLE RATE THEN IN EFFECT. END QUOTE. VOLPE

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